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THE ROLE OF CASH MANAGEMENT IN INCREASING COMPANY LIQUIDITY IN THE BANKING SECTOR

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Abstract

This research aims to review the role of cash management in increasing company liquidity in the banking sector through a literature review. Good liquidity is essential for banking operations because it ensures the availability of funds to meet short-term obligations and supports customer trust. This study highlights the importance of effective cash management strategies to maintain a balance between liquid assets and bank liabilities. Good cash management enables efficient cash flow management, increases the bank's ability to face liquidity crises, and mitigates insolvency risks. Additionally, this study emphasizes the role of technology and data analytics in improving cash management processes. Implementing an automated cash management system and using predictive analytics can help banks predict cash flows more accurately and identify liquidity patterns, so that cash strategies can be adjusted proactively. Thus, strategic cash management supported by technology not only increases operational efficiency but also strengthens the sustainability and competitiveness of companies in the banking sector. This research supports the understanding that effective cash management is the main key in maintaining financial stability and trust in the banking industry.

Keywords: Cash Management, Company Liquidity, Banking

INTRODUCTION

Liquidity is the ability of a bank to meet its maturing financial obligations without having to dispose of assets at prices far below their market value (Gasimov, 2024). In the banking sector, liquidity plays a very vital role because banks operate with a business model that relies heavily on the difference between long-term assets (such as loans and mortgages) and short-term liabilities (such as customer deposits). Lack of liquidity can cause banks to have difficulty meeting their obligations to savers and lenders, which in turn can trigger financial instability (Alsharif, 2024).

Furthermore, liquidity also functions as protection against tight market conditions and economic disruptions (Hassanein, 2022). In a crisis situation, banks that have adequate liquidity have better resilience to deal with massive fund withdrawals (bank runs) or declines in asset values. This is important not only for the survival of the bank itself, but also for maintaining the stability of the financial system as a whole (Susilawati, 2022). Strict banking regulations regarding liquidity ratios, such as the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), are designed to ensure banks always have sufficient liquidity reserves.

Liquidity affects a bank's ability to carry out its financial intermediation function effectively. With good liquidity, banks can quickly and efficiently channel credit to the real sector, which in turn encourages economic growth. Conversely, a lack of liquidity can limit banks' ability to provide new loans, which can slow economic growth and suppress consumption and investment levels (Wu, 2023). Therefore, healthy liquidity is one of the main pillars in maintaining the health of the banking sector and overall economic stability.

Effective cash management is a key element in supporting a bank's liquidity. Banks must actively manage cash inflows and outflows to ensure that they have sufficient cash at all times to meet operational needs and short-term financial obligations. This involves close monitoring of daily cash flows, projected cash needs, and placing cash surpluses in safe liquid instruments such as time deposits, government bonds, or money markets (Bobkov, 2022). Good cash management helps banks avoid situations where they have to sell assets quickly and potentially at a loss just to meet obligations (Dama et al., 2024).

Furthermore, effective cash management also allows banks to respond to changing market conditions more flexibly. In a volatile market situation, banks that have good cash management can quickly adjust their investment strategies to optimize returns while maintaining liquidity. They can choose to take advantage of emerging market opportunities without having to sacrifice short-term liquidity stability (Lie, 2023). Thus, good cash management provides banks with the ability to maintain a balance between risk and return, which is important for the sustainability of their business.

Cash management also plays a role in strengthening customer and investor confidence in banks. Customers who are confident that their bank has a solid cash management process will feel safer storing their funds at that bank. On the other hand, investors will be more likely to provide capital or extend loans to banks that have a reputation for strong liquidity (Nugroho et al., 2023). Thus, good cash management not only supports the daily operations of the bank, but also plays an important role in building and maintaining the bank's good reputation in the eyes of customers and investors (Khan & Sharif, 2024). This ultimately contributes to the financial stability and long-term growth of the bank.

The use of technology in cash management is also becoming increasingly important. Technology-based cash management systems can help companies monitor cash flow in real-time, automate billing and payment processes, and provide deeper analysis of cash flow patterns (Allini et al., 2024). In this way, companies can respond more quickly and accurately to changes in financial and market conditions. Careful and well-integrated cash management not only supports short-term liquidity but also increases operational efficiency and company competitiveness in the long term (Adjei, 2023).

RESEARCH METHOD

This research will use a literature review approach by examining various academic sources, industry reports and relevant case studies. A comparative analysis of existing studies will be conducted to identify common patterns and findings. In addition, interviews with experts and practitioners in the field of content marketing will also be conducted to gain further insight (Earley, M.A. 2014; Snyder, H. 2019).

RESULT AND DISCUSSION

The Role of Cash Management in Increasing Liquidity in the Banking Sector

Efficient cash management is the main key in ensuring liquidity in the banking sector. Banks must always be ready to fulfill current obligations such as withdrawals of funds by customers, interest payments and other urgent obligations. For this reason, banks must have a mature strategy in managing cash inflows and outflows (Marzouki, 2024). Instruments such as cash flow projections and liquidity analysis are used to monitor and plan liquidity needs, ensuring that banks can meet obligations without difficulties or disruption to operations (Sarmiento, 2024). Thus, good cash management can foster customer and stakeholder confidence in the continuity and stability of the bank.

In addition, banks use various financial tools to maintain liquidity. Financial products such as short-term securities, interbank loan facilities, and deposit management are some examples of instruments used to manage liquidity. Banks must also ensure that they hold the right amount of cash reserves in accordance with regulations set by financial authorities (Dabbas, 2023). Careful management of asset and liability portfolios allows banks to maintain a balance between liquidity and profitability. In this way, banks can guarantee that short-term liquidity is maintained without sacrificing long-term profitability (Sheila & Ruslim, 2023).

Technological developments also play an important role in cash management in the banking sector. Technology-based cash management systems, including data analytics and artificial intelligence, help in monitoring and analyzing cash flows more accurately and in real-time. This technology allows banks to more quickly identify and respond to potential liquidity problems, automate administrative processes, and increase operational efficiency (Marwan et al., 2023). By using advanced technology for cash management, banks can be more flexible and adaptive in dealing with changes in market volatility and customer needs, ultimately increasing overall liquidity.

Although effective cash management can increase liquidity, banks still face various challenges in the process. One of the biggest challenges is economic fluctuations which can cause cash flow to become unstable. Apart from that, credit and operational risks can also affect bank liquidity (Safitri & Primadhita, 2022). For example, if many customers decide to withdraw funds at the same time or if there are significant bad debts, the bank's liquidity could be disrupted. Therefore, banks must have a strong risk mitigation strategy, including asset diversification and continuous risk monitoring.

To face these challenges, banks must continue to improve and develop their cash management strategies. One effective strategy is to strengthen relationships with customers and investors to ensure high levels of transparency and trust. Banks can also collaborate with other financial institutions to access additional liquidity facilities if needed (Shi et al., 2023). In addition, training and development of skilled human resources in cash management is also very important. By having a competent team, banks can carry out cash management processes more efficiently and responsively to changing market conditions (Resmawan et al., 2023).

In a regulatory context, effective cash management must comply with the provisions set by financial authorities. This includes provisions regarding liquidity adequacy ratios, daily monitoring of cash positions, and regular reporting on the state of bank liquidity. Compliance with these regulations not only prevents sanctions, but also improves the bank's reputation in the eyes of customers and investors (Meliza et al., 2024). Thus, regulations are not only an administrative burden, but also an incentive for banks to continue to maintain healthy liquidity. Integration between a strong internal strategy and external compliance can ensure efficient cash management, thereby increasing liquidity sustainably in the banking sector (Purba & Syarif, 2023).

Technological Innovation in Bank Cash Management

Technological innovation has significantly changed cash management in banking by simplifying operational processes and increasing efficiency (Shubita, 2023). One important innovation is the use of a digital banking system which allows transactions to be carried out in real-time and automatically. This reduces reliance on manual operations that are time-consuming and prone to human error (Zahler et al., 2022). For example, with an automated cash management system, banks can monitor cash flow, record all transactions, and prepare financial reports more accurately and quickly.

Additionally, artificial intelligence (AI) technology and data analytics have had a major impact on cash management. AI is used to analyze transaction data in depth and provide predictions regarding future financial trends. This allows banks to carry out better financial planning and reduce the risk of cash shortages (Vu, 2024). With data analytics, banks can also recognize suspicious transaction patterns so they can increase financial security and mitigate the threat of fraud (Sajiwo & Arifin, 2023).

The use of blockchain technology has begun to be introduced in cash management to increase transaction transparency and security. Blockchain offers a distributed and change-resistant data storage mechanism, which can protect banks from data manipulation (Dalimunthe et al., 2024). In addition, this technology can facilitate cross-border transactions with lower costs and faster time compared to traditional methods (Hasan et al., 2024). Thus, technological innovation not only increases the efficiency of cash management in banks but also paves the way for safer and more affordable financial services for customers (Cantamessa & Montagna, 2023).

Effective Cash Management Techniques Can Be Applied in Banking

Effective cash management techniques are very important to maintain bank liquidity and financial stability. One technique that can be applied is cash forecasting or cash flow forecasting. By using historical data and financial trend analysis, banks can predict future cash needs and manage the funds required for various operational purposes (Luo & Tian, 2022). Accurate forecasting helps banks manage cash reserves and ensure that they have sufficient liquidity to meet daily transaction needs and anticipate periods of reduced liquidity (Chernykh et al., 2022).

Another technique is optimizing cash balances through liquidity management. Banks can use various financial instruments such as time deposits, securities, and short-term investments to maximize income from funds that are not immediately used (Bandyopadhyay, 2022). By regularly evaluating portfolios and moving funds to more profitable but still liquid products, banks can increase profits without reducing their ability to meet short-term obligations. It is important for banks to maintain a balance between profitability and liquidity to ensure sustainable financial stability (Cindy et al., 2024).

In addition, the implementation of technology and automated cash management systems can increase cash management efficiency. The use of sophisticated cash management software allows banks to automatically reconcile cash, monitor cash positions in real-time, and better manage liquidity risks. This system can also integrate various information from branches and other business units, providing a holistic view of the cash condition of the entire bank (Chen et al., 2022). Thus, technology not only helps in making faster and more precise decisions but also ensures the security and accuracy of financial data.

Apart from the techniques mentioned previously, managing customer relationships also plays an important role in effective cash management in banking. For example, by introducing various attractive savings and investment products, banks can raise public funds more effectively (Owusu-Peprah et al., 2022). Offering products that are varied and in line with customer needs can increase the amount of savings held by the bank. In addition, with a loyalty program and good customer service, banks can retain existing customers and attract new customers, which ultimately contributes to cash stability (McDonald, 2022).

Risk management is also a key component in cash management in banking. Banks must have strong policies and procedures to identify, measure and manage financial risks that can affect their liquidity and cash position (Thakur & Sharma, 2022). The use of hedging and portfolio diversification are some strategies that can help banks protect themselves from unexpected market fluctuations. By adopting a proactive approach to risk management, banks can reduce the negative impact of undesirable financial situations and maintain cash balances (Pote & Kulkarni, 2022).

Training and development of human resources is also crucial in effective cash management. Banks must ensure that their staff have the necessary knowledge and skills to manage and monitor cash flow efficiently. Regular training programs and professional certification in finance can help improve employee competency and ensure they are always up-to-date with industry best practices (Chung et al., 2024). With skilled and knowledgeable human resources, banks can achieve cash management goals more effectively and efficiently.

CONCLUSION

The main conclusion from research on the role of cash management in increasing liquidity in the banking sector highlights the importance of effective cash management strategies in maintaining smooth operations and financial stability of banks. Good cash management allows banks to maintain a balance between liquid assets and liabilities, so they can meet short-term obligations and address customer withdrawal needs without disrupting daily operations. It also helps banks better deal with potential liquidity crises, mitigate insolvency risks, and ensure customer confidence.

This research also emphasizes the use of technology and data analysis in predicting cash flows and identifying liquidity demand patterns which can help banks to plan and adjust their liquidity strategies in a more timely manner. By implementing technologies such as automated cash management systems, predictive analytics and other digital tools, banks can increase efficiency in cash management, enabling faster diversion of funds and better allocation of resources to create long-term cash stability. Therefore, effective cash management is not only an operational necessity but also a strategic tool to increase the competitiveness and sustainability of banking companies.

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